State of Alaska
FY2007 Governor's Operating Budget

Department of Health and Social Services
Medicaid Services
Component Budget Summary

Component: Medicaid Services

Contribution to Department's Mission

The Division of Health Care Services (HCS) maintains the Medicaid “core” services including hospitals, physician services, pharmacy, dental services, transportation; and other services including physical, occupational, and speech therapy; laboratory; x-ray; durable medical equipment; hospice; and home health care.

Core Services

The Medicaid program is a jointly funded, cooperative entitlement program between federal and state governments to assist in the provision of adequate and competent medical care to eligible needy persons. The State Children’s Health Insurance Program (SCHIP), operated through Denali KidCare, is an expansion of Medicaid which provides health insurance for uninsured children whose families earn too much to qualify for Medicaid, but not enough to afford private coverage.

Health Care Medicaid Services can be grouped into three elements: Direct Services provided to the client and processed through the Medicaid Management Information System (MMIS), Non-MMIS Services for services that are not tracked in MMIS, and Medicaid Financing Services for activities that maximize federal funding.

Direct Services include these service categories: inpatient and outpatient hospital, physician, health clinic, surgical clinic, prescribed drugs, durable medical equipment, prosthetic devices, dental, transportation, physical therapy, occupational therapy, speech pathology/audiology, laboratory, x-ray, optometrist, midwife, family planning, nutrition, home health, and hospice.

Non-MMIS Services include payments for insurance premiums (primarily Medicare), contracts for Medicaid operations and cost containment activities, third-party liability services, and supplemental payments to hospitals for uninsured and uncompensated care (Disproportionate Share Hospital program or DSH).

Medicaid Financing Services include the ProShare and FairShare programs. ProShare makes payments for certain medical assistance services to qualified private hospitals. The hospital in turn provides services directly or grants funds to qualified providers to secure services in rural, remote areas. ProShare helps ensure continued access to services for Alaska citizens and to make optimum use of federal participation for inpatient hospital services and allows the state to obtain federal matching funds for what otherwise would be state general funds. FairShare is a payment method for tribal-operated hospitals. Under FairShare, the state makes increased payments to tribal-operated hospitals who then returned 90% of the payments to the state through an intergovernmental transfer. The returned funds are treated as match to finance part of the state’s share of the Medicaid program.

FY2007 Resources Allocated to Achieve Results

FY2007 Component Budget: $743,967,900

Personnel:	
Full time	0
Part time	0
Total	0

Key Component Challenges

Medicaid Financing:
A prospective challenge for all Medicaid programs is the potential reduction of Alaska's Federal Authorized Medicaid Percentage (FMAP) from 57.58% to 51.07% in FFY07. Such a drop would significantly increase Alaska's share of the

cost of Medicaid. However, there is currently legislation in Congress that would hold Alaska harmless for two years (FY06 & FY07). If passed, the Alaska FMAP would remain at the 57.58% rate.

- The total amount of federal funds available for SCHIP is capped. Once the allotment is exhausted, claims are reimbursed at the regular FMAP instead of the enhanced FMAP. In FY07 the department expects its SCHIP costs to exceed the allotment by nearly $10 million. Health Care Medicaid Services accounts for about 65% of SCHIP expenditures. The difference in FMAP rates will increase Health Care Medicaid Services' share of SCHIP costs by $1.4 million in general funds.

- The FairShare program was effectively cancelled when the Ninth Circuit Court of Appeals upheld the federal government's disallowance of the program. The FairShare program made supplemental payments to participating tribal hospitals. The hospitals returned 90% of the payment as statutory designated program receipts (SDPR), which was used as state matching funds for Medicaid. The loss of SDPR means an increase of $45 million in general funds for FY07.

Cost Containment:
The division's response to the challenge of cost containment in the face of rapid service utilization growth and the continually increasing cost of delivering services is ongoing. The division actively pursues opportunities to lower the state share of costs while maintaining benefits. Below is a summary of recent cost containment efforts.

- Cost-avoid prescriptions covered by other insurance and Medicare to be implemented on 11-30-05
- Expanded case management of high-cost recipients
- Expanded efforts to identify drug abuse through client lock-in to single physician
- Continued expansion of the Preferred Drug List in conjunction with the National Medicaid Pooling Initiative
- Continued work on prior authorization requirements for hospital visits
- Increase efforts to eliminate duplicative services through MMIS claims editing
- Identify and implement administrative claiming activities with IHS facilities
- Implemented the Behavioral Pharmacy Management System in conjunction with the Division of Behavioral Health to improve the quality of care and prescribing habits of those providers prescribing behavioral health medications

Medicaid Program Management:
The goals of the organization are to bring financial stability to operations, maximize federal funds, provide more accountability in program management, and improve quality and customer service. The division is committed to building and supporting a medical services program with quality technical and management expertise, and to developing and implementing innovative and effective business management practices to assure the department, the governor, the legislature, and the public will receive and enjoy the benefits of a service delivery system capable of meeting state health care needs while continuing cost containment strategy. Current economic and health care trends in Alaska continue to exert increasing pressure on state health care managers and policymakers to provide clear and demonstrated evidence of the following:

- The ability to sustain an effective and responsive health care management capability while containing costs to the extent permissible by law;
- The capacity to consistently produce comprehensive, accurate, and timely information and data/trends analyses to provide legislators, policymakers, health care providers, and the public the base from which to measure health care management; and
- The ability to effectively and efficiently disseminate that information to policymakers, legislators, our clients, and the public.

Medicaid Service Delivery:
Challenges to Medicaid services involving Medicare Part D, EPSDT, PDL, and school-based services are described below.

- The Recipient Services program is challenged to educate and prepare individuals eligible for the new Medicare Part D drug benefit plan. Effective January 1, 2006, Medicare recipients who qualify for Medicaid (dual eligibles) will receive prescription drug coverage through Medicare instead of Medicaid. This is the biggest change to Medicare in its 40 year history. Educational materials have been developed and distributed, and networks of volunteers are trained to provide information and assistance to the more than 11,000 dual eligibles

in Alaska. In addition to the dual eligibles, DHSS staff will assist any Alaskan who qualifies for Medicare Part D to enroll in a drug plan beneficial to them.

- The Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT or Well-Child Exams) has several challenges including:

  (1) Reducing future medical costs by increasing the quality of preventative medical services for children without increasing current care reimbursement levels;

  (2) Providing new, cost effective vaccines to teenagers who are a “devil-may-care" group known for avoiding doctors; and

  (3) Providing parents with targeted, age appropriate well-child exam and immunization information they need to protect the health of their children.

- School-based rehabilitative services are offered through the school setting to Medicaid eligible children with a disability. Services covered are physical therapy; occupational therapy; speech-language pathology; and, hearing services. The match portion for the federal funds is collected as SDPR from participating schools. At the beginning of FY05 only one school district participated. By the end of FY05 a second school district was participating. Plans are to increase the number of school districts enrolled as providers. School districts experience several challenges in implementing this service. Many districts do not have access to enough qualified professionals and do not have experience with fee-for-service billing processes. Additionally the districts need to develop new accounting procedures to manage the funds to be returned to the state. Notwithstanding these significant impediments, several new districts have expressed an interest in providing school based services this school year. Estimated expenses for FY07 are projected to be $318 thousand, if no additional schools enroll as providers.

Significant Changes in Results to be Delivered in FY2007

- The department is asking for a $13.2 million increase for the Disproportionate Share Hospital (DSH) program to provide relief to health care systems from the financial burden of uninsured and underinsured patients. There currently is no general fund match available to make payments to hospitals in other categories.

- The Medicare Prescription Drug Improvement and Modernization Act of 2003 created a new Medicare Part D prescription drug benefit available to all Medicare recipients, effective January 1, 2006. Medicare recipients who qualify for Medicaid (dual eligibles) will receive prescription drug coverage through Medicare instead of Medicaid. States' direct spending on prescription drugs will decrease by approximately 39%. However, the new law requires states to pay the federal government a portion of those savings (also known as the "clawback"). In FY07, clawback payments are expected to exceed savings by $4.4 million.

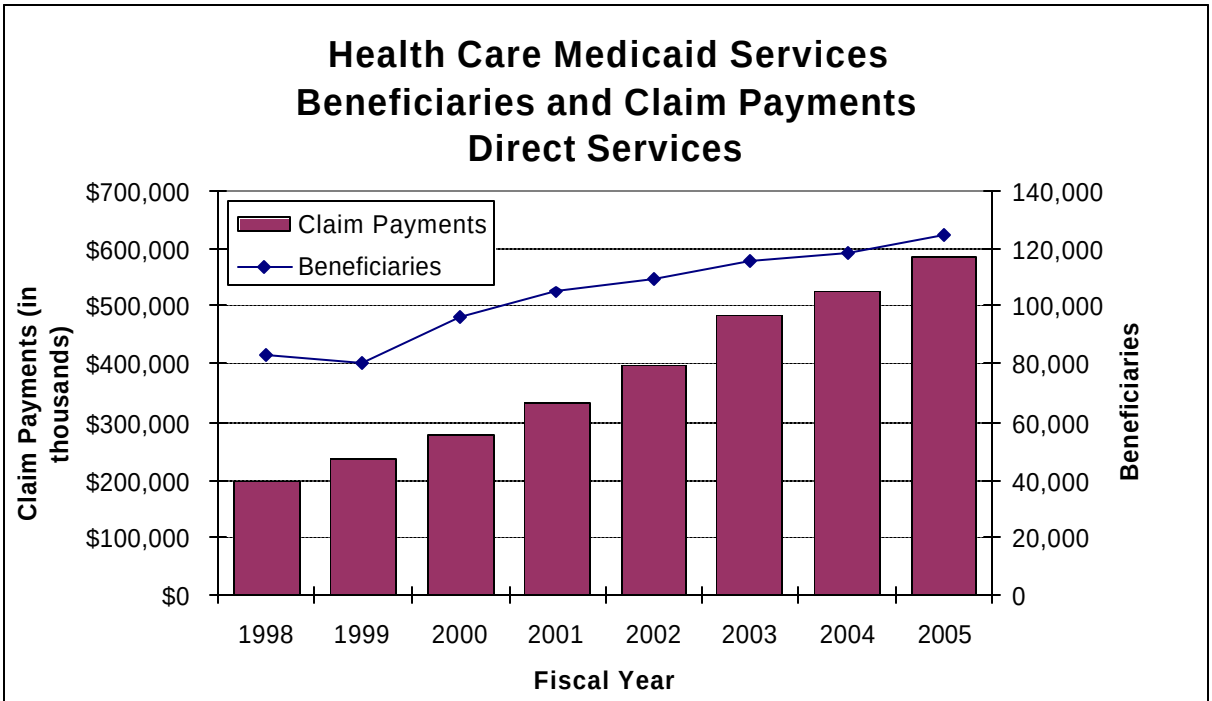
- Tribal Targeted Case Management services (TTCM), approved in June 2005, are provided to Medicaid eligible recipients who are Alaska Native/American Indians served through qualified Indian Health Services facilities. TTCM services include developing case plans for medical, education, social, or other services; facilitating access to resources; evaluating services; and, reassessment. TTCM services are 100% reimbursed by the federal government. TTCM services will be phased-in during SFY06. By FY07 TTCM should reach full participation, estimated at 20% of the approximately 36,000 eligible enrollees and cost an estimated $17.3 million in federal funds.

- The Medicaid Lock-in program, in which beneficiaries receive coordinated services from one physician and one pharmacy, experienced significant regulation changes effective September 2005 which resulted in a retooling of the program. The new, managed care program will include statistical analysis and clinical review of Medicaid service utilization. Beneficiaries who utilize Medicaid services at a level that is not medically necessary can now be placed into the Medicaid Lock-in managed care program. Coordinated care offers individuals a “medical home” that focuses on providing appropriate supervised care for persons who need it most. Cost savings are anticipated as beneficiaries who are placed in the program will not be duplicating services or using the emergency room for their primary care needs.

- In FY07, Health Care Medicaid Services will move from pay-and-chase to cost avoidance third-party liability

(TPL) for pharmacy claims. Medicaid is the payer of last resort, meaning other available insurance is considered the primary payer. In pay-and-chase TPL, Medicaid pays the claim upfront and then attempts to recover the cost from the primary payer. In cost avoidance, the cost is never incurred as the claim is sent to the primary payer first. This change in TPL is expected to decrease costs $1.3 million in FY07.

- Expenditures in FY07 for Health Care Medicaid Services are projected to grow $80.4 million ($63.5 Federal/$16.9 GF), a 6% increase from FY06 to FY07. The growth includes increases of: $16.9 million federal authorization for funding Continuing Care Settlements to Tribal Hospitals which provide ongoing care for EPSDT related medical costs; and $1.8 million for Exceptional Relief rate adjustment payments to providers.

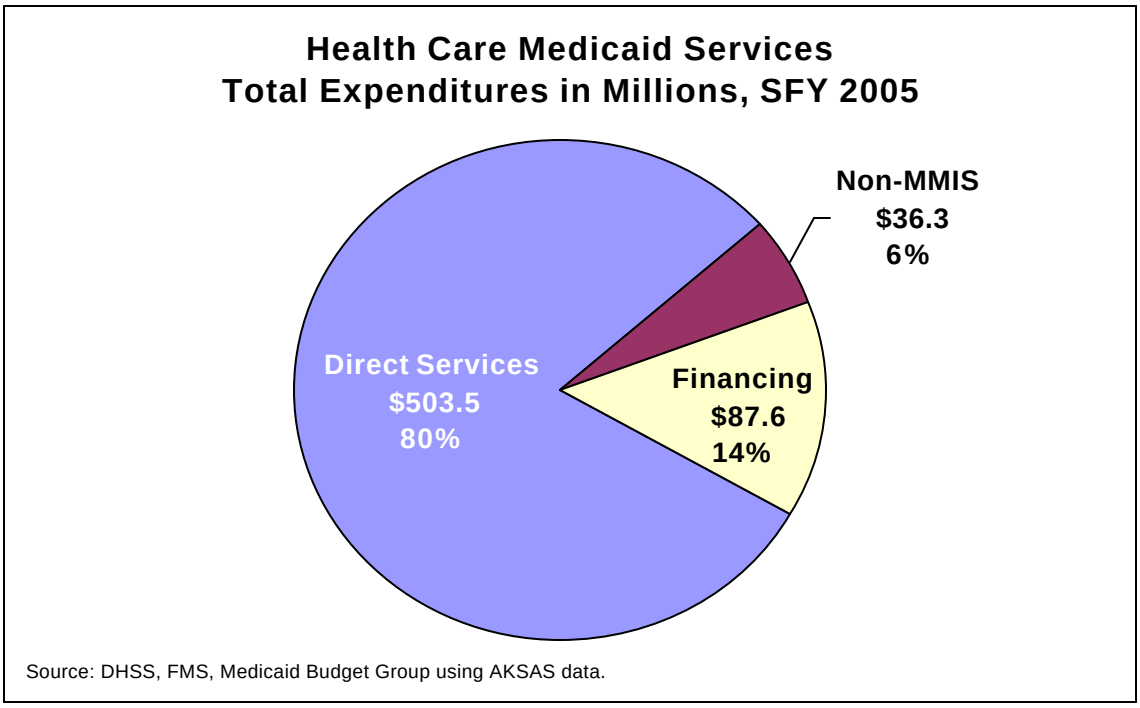


Source: DHSS, FMS, Medicaid Budget Group using MMIS-JUCE data.

Major Component Accomplishments in 2005

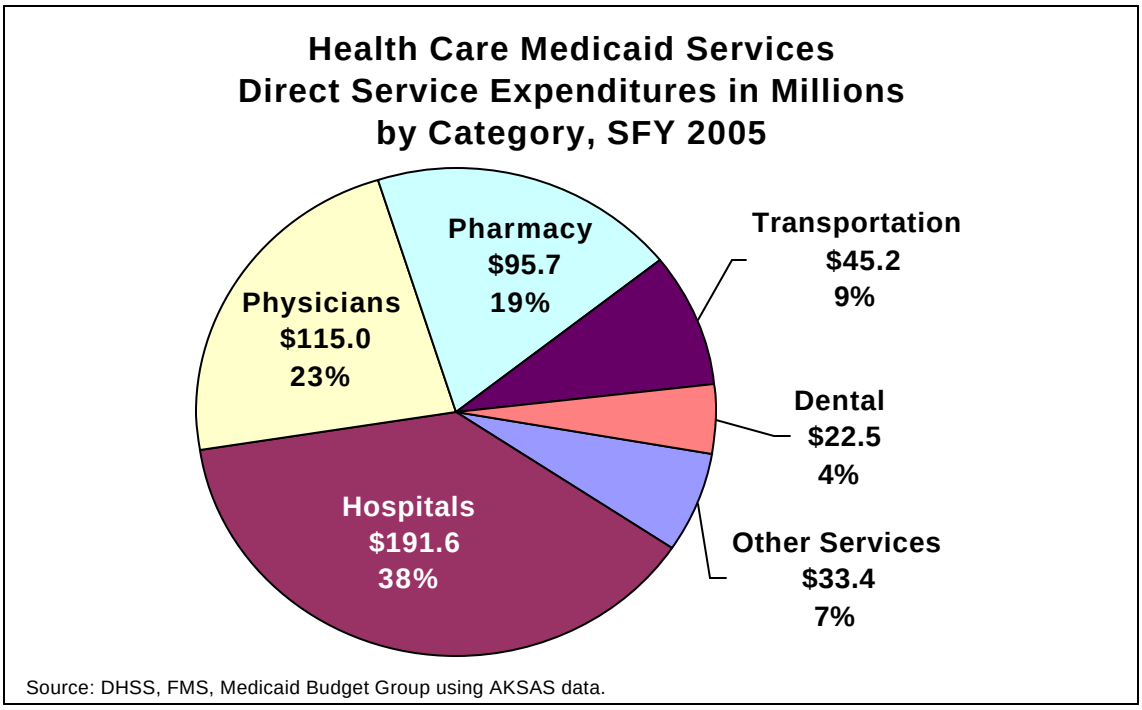
In FY05 Health Care Medicaid Services provided services to nearly 125,000 Alaskans, 95% of the total enrolled.

Growth for the component slowed from 17% in FY03 to 6% for FY05. While overall growth was about 6%, growth in direct services was around 11%. Direct service's growth is mostly due to increases in the number of clients served. The number of recipients rose an average of 9% while the cost-per-recipient rose 1%.

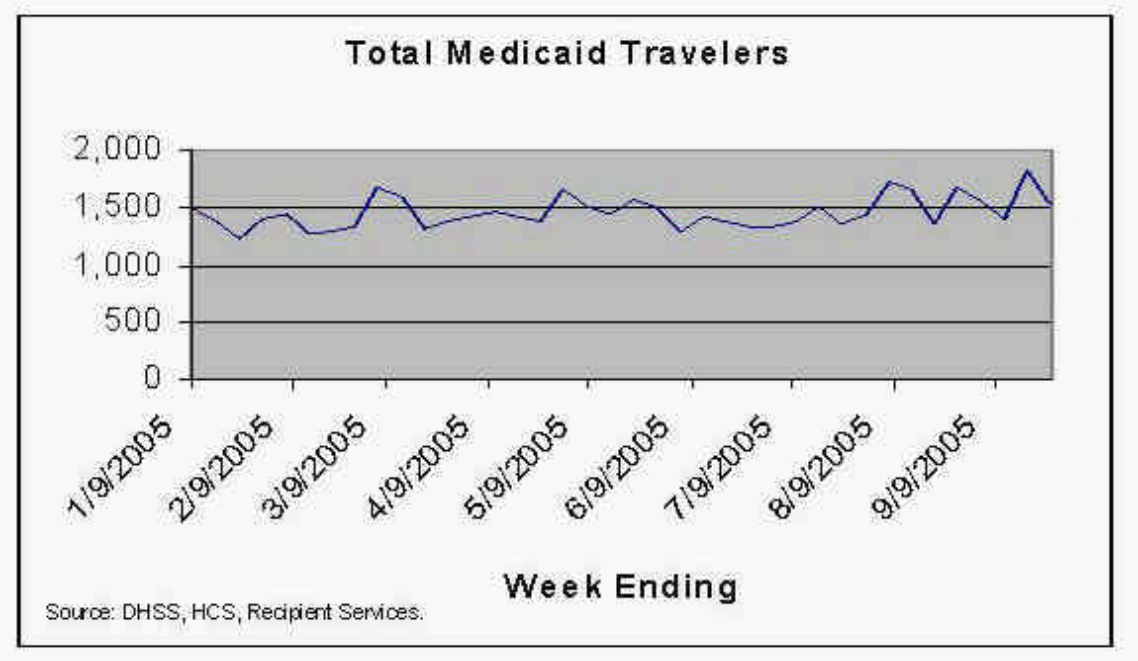


Most of the increased cost for FY05 can be attributed to Physician Services and Hospitals. Hospitals and Physician Services comprise 61% of the total costs for this component. Physician Services grew 18% from FY04 to FY05. Hospitals grew 7% during the same period. Durable Medical Equipment and Audiology Services grew at the fastest rate, 22%; however, this is a relatively small category and therefore does not have much impact on total expenditures. Pharmacy services grew 4% after rebates.

The total cost for services provided exceeded $627 million in FY05. Eighty percent of the Health Care Medicaid Services budget is spent on direct services to Medicaid clients. Following is the percentage breakout of the direct services portion of the Health Care Medicaid Services budget in FY05.



In January 2005, the department of Administration's State Travel Office (STO) began arranging all non-emergency, medically necessary transportation for Medicaid clients. Transportation Services saw a 16% increase in costs from FY04 to FY05. The State Travel Office saved money by getting a better airfare than was generally available; however, because overall ticket prices increased, the best efforts of the STO could not prevent the cost-per-recipient from rising 16%. The State Travel Office receives on average more than 1,900 calls and processes travel for an average of nearly 1,500 travelers each week. The following chart shows the total STO weekly travelers over a 38 week period.



Statutory and Regulatory Authority

Alaska Statutes:

AS 47.07 Medical Assistance for Needy Persons
AS 47.08 Assistance for Catastrophic Illness and Chronic or Acute Medical Conditions
AS 47.25 Public Assistance

Social Security Act:
Title XVIII Medicare
Title XIX Medicaid
Title XXI Children's Health Insurance Program

Administrative Code:
7 AAC 43 Medicaid
7 AAC 48 Chronic and Acute Medical Assistance

Code of Federal Regulations:
Title 42 CFR Part 400 to End

Contact Information

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Medicaid Services
Component Financial Summary

All dollars shown in thousands

	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
Formula Program:			
Component Expenditures:			
71000 Personal Services	0.0	0.0	0.0
72000 Travel	1.6	0.0	0.0
73000 Services	13,765.6	9,148.5	9,148.5
74000 Commodities	0.4	0.0	0.0
75000 Capital Outlay	0.0	0.0	0.0
77000 Grants, Benefits	613,491.7	646,899.0	734,819.4
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	**627,259.3**	**656,047.5**	**743,967.9**
Funding Sources:			
1002 Federal Receipts	449,836.3	463,741.6	521,477.3
1003 General Fund Match	111,159.3	111,497.4	135,752.2
1004 General Fund Receipts	4,614.5	3,934.5	54,708.1
1007 Inter-Agency Receipts	16,639.5	20,233.5	20,233.5
1108 Statutory Designated Program Receipts	44,976.7	55,890.5	11,046.8
1156 Receipt Supported Services	33.0	750.0	750.0
Funding Totals	**627,259.3**	**656,047.5**	**743,967.9**

Estimated Revenue Collections

Description	Master Revenue Account	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		**0.0**	**0.0**	**0.0**
Restricted Revenues				
Federal Receipts	51010	449,836.3	463,741.6	534,007.3
Interagency Receipts	51015	16,639.5	20,233.5	20,233.5
Statutory Designated Program Receipts	51063	44,976.7	55,890.5	11,046.8
Receipt Supported Services	51073	33.0	750.0	750.0
Restricted Total		**511,485.5**	**540,615.6**	**566,037.6**
Total Estimated Revenues		**511,485.5**	**540,615.6**	**566,037.6**

Summary of Component Budget Changes
From FY2006 Management Plan to FY2007 Governor

All dollars shown in thousands

	General Funds	Federal Funds	Other Funds	Total Funds
FY2006 Management Plan	**115,431.9**	**463,741.6**	**76,874.0**	**656,047.5**
Adjustments which will continue current level of service:				
-SCHIP Shortfall	1,413.6	-1,413.6	0.0	0.0
Proposed budget decreases:				
-Loss of Fairshare SDPR	0.0	0.0	-45,000.0	-45,000.0
-Medicare Part D Pharmacy Costs and Drug Rebates Reduction	0.0	-16,866.2	0.0	-16,866.2
-Change in Policy Moving from Pharmacy Pay-and-Chase to Cost Avoidance	-646.7	-668.8	0.0	-1,315.5
Proposed budget increases:				
-Increase Disproportionate Share Hospital (DSH) Authorization	6,502.6	6,724.9	0.0	13,227.5
-90% Medicare Part D Clawback	4,360.0	0.0	0.0	4,360.0
-Projected FY07 Growth	16,876.6	63,473.4	0.0	80,350.0
-Premium Increases for Medicare Part A and Part B	1,522.3	1,574.3	0.0	3,096.6
-Add Tribal Targeted Case Management Services (TCM)	0.0	4,750.0	0.0	4,750.0
-Expand School-Based Therapy and Hearing Services	0.0	161.7	156.3	318.0
-Replacment of Fairshare SDPR	45,000.0	0.0	0.0	45,000.0
FY2007 Governor	**190,460.3**	**521,477.3**	**32,030.3**	**743,967.9**